Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: General Offshore Corporation-Riedel Company, a Joint Venture

File: B-271144.2; B-271144.3

Date: July 2, 1996

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DIGEST

1. Award of contracts to an offeror under a predetermined cost/technical tradeoff formula which the solicitation stated was intended to be strictly followed by the agency to determine the awardee is proper where, although the formula actually applied by the contracting agency was not consistent with that stated in the solicitation due to a flaw in the computer program used by the agency, the record shows that the award was made to the offeror whose proposal represents the best value proposal under a proper application of the stated tradeoff formula.

2. Agency's upward adjustment of protester's proposed cost for a cost reimbursement contract is reasonable where the protester introduced labor overhead rate reductions in its best and final offer without a reasonable explanation for the reduction, or without providing documentation supporting the rate.

DECISION

General Offshore Corporation-Riedel Company, a Joint Venture, protests an award to Global PCCI, a Joint Venture, under request for proposals (RFP) No. N00024-93-R-4156, issued by the Department of the Navy, Naval Sea Systems Command, for management, maintenance and operation of Emergency Ship Salvage Material (ESSM) bases, and for services related to pollution control, underwater ship husbandry and salvage operations.

We deny the protests.

BACKGROUND

The RFP contemplated the award of two contracts for a base year with 4 option years to a single offeror. The first contract, for the management, maintenance and operation of ESSM bases, is a cost-plus-award-fee contract. The other contract is for indefinite delivery/indefinite quantity type services related to pollution control, underwater ship husbandry and salvage operations, which contemplated either fixed-price or cost reimbursement orders for the services. The RFP listed all of the required labor categories and positions for which offerers were required to propose specific personnel (referred to as “scheduled personnel”); non-scheduled services would be performed by additional, non-specified individuals (referred to as “non-scheduled personnel”). Offerors were required to include and identify in their cost proposals loaded "man-day rates" for each required labor category to include all components of cost. The RFP contemplated that work placed under the contracts would be based on these "man-day rates."

The RFP provided for a best value evaluation with technical factors of greater importance than cost. The RFP listed the technical evaluation factors, their respective first, second, third and fourth-tier subfactors, and the relative importance of each factor or subfactor. Raw technical scores were converted to a weighted score on a 100-point scale.

The RFP contained a specific cost/technical tradeoff methodology to be used for determining the proposal which represented the best value. This methodology was stated in the RFP as follows:

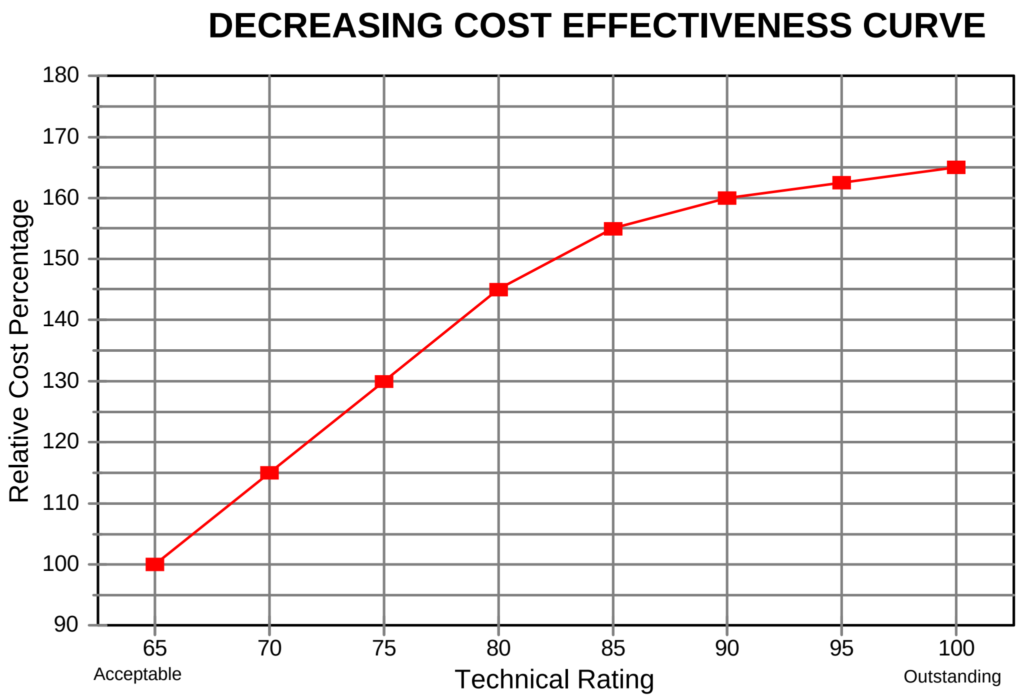
> "Technical factors, taken as a whole, are on the average more important than cost; however, cost is an important factor. The degree of its importance will increase with the degree of equality of proposals in relation to other factors on which selection is to be based. The [g]overnment is willing to pay a premium over [the] lowest-priced technically acceptable offer for a technically superior proposal offering the 'greatest value' to the Government. A 'decreasing cost effectiveness' methodology will be employed to determine which proposal represents the best value. This methodology, which is based on a determination of what premium(s) the Government is willing to pay across the range of acceptable technical scores, permits award to an offeror with a higher cost and also a higher technical rating than the Lowest (cost) Technically Acceptable Proposal (LTAP) within predetermined limits. Specifically, each dollar proposed over the LTAP will require an incrementally higher technical score increase to remain equivalent to the LTAP. The graph which follows illustrates

the curve representing equivalent proposals, and is based on premiums established as follows:"

Technical Score	Relative Cost Govt. Will Pay [percent of LTAP]	Ratio[1]
65	100	--
70	115	3 : 1
75	130	3 : 1
80	145	3 : 1
85	155	2 : 1
90	160	1 : 1
95	162.5	0.5 : 1
100	165	0.5 : 1

[1]The ratio represents the rate at which the relative cost percentage points increase for a corresponding increase in technical score. A technical score of 65 is the lowest technically acceptable score, and the chart is based on the assumption that the LTAP will have a technical score of 65. As indicated in the following graph set forth in the RFP, the ratio for a given technical score on the table applies to the interval of technical scores greater than the preceding technical score, up to and including the given technical score. Thus, for a technical score of 83 points, the respective interval is 80 through 85 and the applicable ratio is the one corresponding to the technical score of 85 (i.e., 2:1). The ratio value must be multiplied by the number of points in the interval to produce the relative cost percentage points earned for the technical points in that interval (i.e., the ratio value is 2; the number of points in the interval is 83 - 80 = 3; the relative cost percentage points earned for the interval is 2 x 3 = 6). The total relative cost percentage corresponding to the technical score of 83 is the sum of the percentage points earned for this interval and the total percentage points stated in the table for the next lowest technical score of 80 (i.e., 6 + 145 = 151). Thus, under the example, the relative cost for a technical score of 83 is 151 percent of the LTAP.

When plotted on a graph, the data from the table produce the following curve which was also included in the RFP:



The points falling directly on the curve represent equivalent proposals under the cost/technical selection methodology. For example, assuming that a proposal with the lowest technically acceptable score of 65 also has the lowest (i.e., LTAP) cost, the proposal would be equivalent to a proposal with a score of 80 and a cost that is 145 percent of the LTAP, as well as equivalent to a proposal with a perfect score of 100 and a cost that is 165 percent of the LTAP, because all three of these proposals would be represented as points on the graph which fall directly on the curve illustrated in the RFP.

The RFP further stated:

> "Any point above the curve represents a proposal inferior to those on the curve and will be ineligible for award. Any point below the curve represents a proposal superior to those on the curve. Such proposals have a technical-to-cost ratio of greater value to the [g]overnment. The [g]overnment will determine the greatest value offeror and ultimate awardee from offers on or below the curve. The [g]overnment reserves the right to judge which proposal reflects the required technical ability and which proposal offers the greatest value to the [g]overnment."

Initial proposals were received from four offerors, including General Offshore and Global (the incumbent contractor). Technical proposals were evaluated by a technical evaluation review panel, which reported the evaluation results to a contract award review panel (CARP). Concurrently, the contracting officer performed a cost realism analysis with the assistance of the Defense Contract Audit Agency (DCAA).

The agency conducted discussions and, by letter of October 13, 1995, requested best and final offers (BAFO). BAFOs were received from all four offerors. The final evaluation results were as follows:

Offeror	Technical Score[2]	Proposed Cost ($)	Evaluated Cost ($)	Best Value Ranking
Global	89.1	26,604,387	27,292,837	1
General Offshore	84.7	25,613,162	26,251,792	2
Offeror A	78.9	26,825,530	26,825,530	3
Offeror B	70.9	26,951,746	26,951,746	4

The offerors' evaluated costs reflect the adjustments made to proposed costs as a result of the cost realism analysis. Specifically, while the proposed BAFO costs for General Offshore were based in part on a proposed labor overhead rate of [DELETED] percent and Global's BAFO costs were based on proposed labor overhead rates ranging from [DELETED] percent to [DELETED] percent (depending on the worksite), the agency's cost realism analysis adjusted both offerors' rates to [DELETED] percent.[3]

The contracting officer ranked proposals using a computerized spreadsheet program, which he had a Navy employee create some years ago for this purpose. That program--which, as explained below, contained certain programming errors--

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[2]During the course of this protest, the agency discovered errors in the technical scores for General Offshore and Global, and increased each of these offerors' scores slightly to reflect the correct scores resulting from evaluations. The protester does not dispute the corrected scores. The agency determined that the corrected scores did not change the ranking of proposals under the tradeoff methodology. The scores in this table are the corrected scores.

[3]The proposed costs of the other two offerors were not adjusted because the agency determined that they were not in contention for award.

purports to calculate best value ratings for the proposals received. These ratings were derived from the "normalized cost" of proposals, calculated using the offerors' point scores and evaluated costs from the predetermined cost/technical tradeoff values stated in the RFP. The "normalized costs" and the relative ratings derived directly therefrom represent the relative value of the proposals for best value comparison purposes, as contemplated by the RFP methodology.

More specifically, under this methodology (as explained further below), the normalized cost of a proposal is a dollar amount essentially calculated by first determining the dollar value (the "premium earned") of a proposal's technical score above the minimum acceptable score of 65 points. This is done by determining the relative cost percentage of the total technical score from the graph and table included in the RFP, based on the particular proposal's technical score as compared to a hypothetical baseline proposal rated at 65 points with an evaluated cost equal to the LTAP cost. The LTAP cost is multiplied by the proposal's relative cost percentage to convert the relative cost percentage into a dollar value. The LTAP cost is then subtracted from this dollar value to determine the premium earned. The premium earned is in turn subtracted from the proposal's evaluated cost to determine the proposal's normalized cost.[4] Under the computer program, the lowest normalized cost of all proposals was then supposed to be divided by the normalized cost of each proposal and multiplied by 100 to produce the rating for the respective proposal. Proposals were then ranked from first to last with the highest rating representing the first in rank and thus the best value.

The CARP reviewed the technical and cost evaluations, and found that Global's proposal was "clearly technically superior, and falls within the 'best value' premium for award," and that only award to Global would be consistent with the evaluation plan and award methodology stated in the RFP, and recommended award to Global.

The contracting officer, who was authorized under the Source Selection Plan to make the final source selection, concurred with the CARP recommendation. The contracting officer determined that Global's technical proposal was outstanding and technically superior overall; that Global's evaluated cost was only 3.97 percent above the LTAP cost represented by General Offshore's evaluated cost; and that, based on his calculations, only award to Global would be consistent with the stated evaluation and award methodology. On January 30, 1996, after obtaining authority to execute the contracts, the contracting officer awarded the contracts to Global.

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[4]As explained further below, under this methodology, the lowest normalized cost represents the best value.

General Offshore’s protests followed, challenging both the award under the cost/technical tradeoff methodology and the adjustment of overhead rates in the cost realism analysis.[5]

COST/TECHNICAL TRADEOFF METHODOLOGY

General Offshore alleges that, given the close technical evaluation scores of its and Global’s BAFOs, the BAFOs were essentially equivalent, and thus General Offshore’s lower-cost BAFO represented a better value. Alternatively, it alleges that, using the computerized spreadsheet program relied upon by the contracting officer to rank proposals, General Offshore's proposal is ranked number one and thus is the best value.

During the course of this protest, the Navy stated that, in addition to the undisputed error in the final technical scores, see footnote 2, supra, there was an error in the spreadsheet program which rendered the spreadsheet-generated rankings unreliable for determining the best value proposal under the stated cost/technical tradeoff methodology. The contracting officer therefore provided his own calculations of the normalized costs of proposals--$11,778,028 for Global and $11,970,817 for General Offshore--and ranked proposals, with the lowest normalized cost representing the best value proposal. Since Global also has the lowest normalized cost under the contracting officer's calculations, the Navy contends that the award to Global was proper.

Agencies must evaluate proposals in accordance with the criteria established in the RFP. Telecommunications Management Corp., 57 Comp. Gen. 251 (1978), 78-1 CPD ¶ 80. Source selection officials have broad discretion in determining the manner and extent to which they will make use of the technical and cost evaluation results subject only to the tests of rationality and consistency with the RFP evaluation criteria. Grey Advertising, Inc., 55 Comp. Gen. 1111 (1976), 76-1 CPD ¶ 325. While evaluation point scores or adjectival ratings alone are not indicative of the relative value of proposals, and generally should be used as a guideline for intelligent

[5]General Offshore's protest raised other issues, including allegations of unfair competitive advantages enjoyed by Global as the incumbent, a lack of meaningful discussions, and an unreasonable evaluation of proposed general and administrative costs. The Navy’s reports and Global’s submissions to the record specifically addressed and refuted all of these allegations. In responding to these submissions, the protester requested that we decide these protest issues on the record, but did not provide any evidence to either support its allegations or otherwise refute the agency's or Global's positions. We have reviewed the record and find no basis to sustain any of these protest issues.

decision-making, such that a selection decision should reflect the procuring agency's considered judgment of the significance of the difference in scores or ratings, M.D. Oppenheim & Co., P.A., 70 Comp. Gen. 213 (1991), 91-1 CPD ¶ 98, we have consistently upheld source selection decisions which rely solely on mathematical cost/technical tradeoff methodologies where the application of such a methodology is consistent with the source selection scheme stated in the RFP. See, e.g., Douglas County Aviation, Inc., et al., 64 Comp. Gen. 888 (1985), 85-2 CPD ¶ 345; Tulane Univ., B-259912, Apr. 21, 1995, 95-1 CPD ¶ 210.

Notwithstanding the protester's contentions, the fact that point scores are close does not necessarily indicate that proposals are essentially equal; rather, agencies may reasonably decide that a relatively minor point differential represents actual superiority of the higher-rated proposal. M.D. Oppenheim & Co., P.A., supra. Here, the record shows that the Navy considered the higher technical score of Global--both as part of the original selection decision and during the course of this protest--to reflect actual superiority. Specifically, Global's proposal was found superior to General Offshore's in the areas of personnel, management, ESSM-type experience, corporate organization, and oil and hazardous material spill contingency planning. The protester has not refuted the agency's explanations of the technical ratings, made specific responses to the agency's explanations justifying the point scores awarded, or contended with any support that Global's technical rating may be too high or General Offshore's rating too low. Accordingly, the protester's contention that the point scores alone demonstrate that the two proposals are essentially equal is not supported by the record.

As for the cost/technical tradeoff methodology used to rank proposals for award, the protester challenges the contracting officer's use of normalized costs to determine the best value BAFO, arguing that the ratings calculated from the software program should determine the awardee.[6] Based on our review, we find that the comparison of the normalized costs calculated by the contracting officer is consistent with the cost/technical tradeoff methodology stated in the RFP and demonstrates that Global was properly selected for award.

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[6]General Offshore also notes that the contracting officer's calculations now justifying the award were created after award, contending that the software program created prior to award must be used to determine the awardee. However, while documentation, such as the normalized cost calculations based on the corrected technical scores in this protest, which were developed after award and in response to a protest, may warrant less weight than other evidence in the record, we do consider such information together with the entire record, where, as here, the protester has had an opportunity to comment on the documentation. Akal Sec., Inc., B-261996, Nov. 16, 1995, 96-1 CPD ¶ 33.

As indicated above, the normalized costs were calculated by first converting each proposal's relative cost percentage determined from the table and graph given in the RFP into a dollar value from which the LTAP price was subtracted to yield what the contracting officer termed the "premium earned" over the assumed hypothetical baseline proposal with a technical score of 65 and a cost equal to the LTAP cost. Thus, the premium earned essentially quantifies in dollars the value to the government of a proposal's technical score in excess of the minimum acceptable score of 65 points.

Here, the LTAP cost is the evaluated cost of General Offshore's BAFO ($26,251,792). Thus, the premium earned by Global's proposal is $15,514,809 (i.e., the difference between the LTAP cost and the product of the LTAP cost multiplied by Global's relative cost value of 159.1 percent, which is determined using Global's technical score and the values from the table in the RFP, see footnote 1, supra). The premium earned by General Offshore's proposal is $14,280,975 (i.e., the difference between the LTAP cost and the product of the LTAP cost multiplied by General Offshore's relative cost value of 154.4 percent). This calculated "premium earned" is then subtracted from each offeror's evaluated BAFO cost to yield the normalized cost. Here, the normalized cost of Global's BAFO is $11,778,028 (i.e., Global's evaluated cost of $27,292,837 less its premium earned of $15,514,809), and that of General Offshore's BAFO is $11,970,817 (i.e., its evaluated cost of $26,251,792 less its premium earned of $14,280,975).

The normalized cost reflects a proposal's value to the government at the proposed cost considering the value of the proposal's technical score in excess of the minimum acceptable score of 65 points. Therefore, the lower the normalized cost of a proposal, the better value it is to the government under the stated cost/technical tradeoff methodology. Since the normalized costs are derived using the relative cost values under the cost/technical tradeoff methodology stated in the RFP, the use of normalized costs to determine the best value is consistent with the stated cost/technical tradeoff methodology. In other words, this calculation is one method of essentially quantifying how far each proposal's value falls below the "decreasing cost effectiveness curve" set out in the RFP to determine which proposal falls furthest below the line and therefore represents the best value as the proposal with the best technical-to-cost ratio under the RFP evaluation methodology.[7] Here, Global's normalized cost is lower than General Offshore's, and

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[7]Alternatively, the curve can be replotted through the actual LTAP proposal using the same formula illustrated by the table and graph included in the RFP, in which case any proposal whose value falls below the replotted curve would represent a better value than the actual LTAP proposal. Under this replotting, General Offshore's LTAP proposal would fall on the line and Global's proposal below the
(continued...)

indeed lower than that of any other BAFO, therefore Global's BAFO represents the best value under the stated cost/technical tradeoff methodology.

As noted by the protester, we have verified that applying the correct technical ratings and evaluated costs in the Navy's computerized spreadsheet program ranks General Offshore's proposal as the best value by a slight margin. While the protester argues that this mandates that award be made to itself, we have also verified that the spreadsheet program contains errors which renders the program unreliable for ranking proposals under the stated methodology and that the calculation of the normalized costs described above is consistent with the RFP. Since the contracting officer--i.e., the designated source selection authority in this case--has determined to strictly adhere to the best value methodology and has reassessed the ranking of BAFOs using the normalized costs of BAFOs at the corrected technical scores, the award to Global is consistent with the cost/technical tradeoff methodology stated in the RFP. The erroneous results generated by the defective software program provide no basis for disturbing the award.

EVALUATION OF OVERHEAD RATES

General Offshore challenges the agency's cost evaluation based on its contention that the Navy unreasonably projected the protester's labor overhead rate above its proposed rate of [DELETED] percent in calculating General Offshore's evaluated cost.

Where, as here, an agency evaluates proposals for the award of a cost reimbursement contract, an offeror's proposed estimated costs of contract performance are not dispositive because, regardless of the costs proposed, the government is bound to pay the contractor its actual and allowable costs. Federal Acquisition Regulation § 15.605(c); Sabre Sys., Inc., B-255311, Feb. 22, 1994, 94-1 CPD ¶ 129. Consequently, a cost realism analysis must be performed by the agency to determine the extent to which an offeror's proposed costs represent what the contract should cost, assuming reasonable economy and efficiency. CACI, Inc.-Fed., 64 Comp. Gen. 71 (1984), 84-2 CPD ¶ 542. Because the contracting agency is in the best position to make this cost realism determination, our review is limited to determining whether the agency's cost realism analysis is reasonably based and not arbitrary. General Research Corp., 70 Comp. Gen. 279 (1991), 91-1 CPD ¶ 183, aff'd, American Management Sys., Inc.; Department of the Army--Recon., 70 Comp. Gen. 510 (1991), 91-1 CPD ¶ 492.

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[7](...continued)
line. We have found no method of applying this tradeoff formula to the point scores and evaluated costs that could produce any result other than the one reached here and be consistent with the tradeoff formula illustrated in the RFP.

The Navy's cost realism analysis here was based in part on DCAA's pre-BAFO review of General Offshore's proposed labor overhead rates. DCAA took no exception to the rate of [DELETED] percent which General Offshore initially proposed for scheduled personnel. However, DCAA did report that the rate for non-scheduled personnel should be increased from the proposed rate of [DELETED] percent to [DELETED] percent because General Offshore had not proposed to use additional personnel to perform non-scheduled services, as contemplated by the RFP, and thus had not included all of the overhead components in this rate that would be attributable to non-scheduled personnel. In addition, DCAA reported that, since General Offshore's joint venture was new and had no historical overhead rates, the proposed rates were only based on the offeror's projections of costs. DCAA did not review the assumptions upon which these projections were based and thus qualified its verification of these rates, stating that the offeror's actual rates could vary significantly from the projected rates, and that the Navy therefore should not consider these rates "as audit approved or recommended" by DCAA.

During discussions, the Navy advised General Offshore that it considered its overhead rate for non-scheduled personnel to be unrealistically low. In response, General Offshore sought clarification about the distinction between scheduled and non-scheduled personnel, stating that if non-scheduled services are performed by additional personal, "then the overhead rate would be billed at [DELETED] [percent]." The Navy advised General Offshore that indeed non-scheduled services were to be performed by additional personnel.

In its BAFO, General offshore proposed an overhead rate of [DELETED] percent for both categories of labor overhead, stating that the decrease from the rate of [DELETED] percent was "due to the increased volume in the direct labor base when we included the [additional] non-scheduled [personnel]." The BAFO provided no support for the rate of [DELETED] percent.

The contracting officer determined that there was no reasonable basis for the overhead rate to decrease with the addition of personnel to the labor base because the costs comprising overhead increase proportionally to the increase in personnel. Therefore, the contracting officer did not consider General Offshore's proposed rate of [DELETED] percent to be reasonable, and increased that projected rate to [DELETED] percent in his cost realism analysis.

The record shows that the components of labor overhead pools of the respective offerors are only those costs required under state or federal laws, such as social security contributions, unemployment insurance, and the costs of labor compensation fringes required under applicable Service Contract Act wage determinations. Since such costs vary directly with the number of employees in the labor base, we find reasonable the contracting officer's rationale for rejecting the offeror's explanation that its proposed decrease in overhead rate was due to an increase in its labor base. Moreover, General Offshore's BAFO did not provide support for the newly proposed rate. Since an offeror is responsible for supporting the cost elements in its proposal, including claimed overhead rates, we think the agency reasonably disregarded the proposed rate decrease here. See Radian, Inc., B-256313.2; B-256313.4, June 27, 1994, 94-2 CPD ¶ 104.

The contracting officer also did not consider General Offshore's initially proposed rate of [DELETED] percent to be realistic and instead used a [DELETED]-percent rate for cost realism evaluation purposes. The contracting officer's stated rationale for this increase was that General Offshore was a newly formed joint venture whose rates could vary substantially vary from those proposed; that the cost elements of the overhead cost pools should be essentially the same for General Offshore as for Global (the incumbent contractor); and that there was no apparent basis for the offerors' rates to differ from the actual rates experienced under the incumbent contract which, according to DCAA, were in excess of [DELETED] percent.

General Offshore contends that it was unreasonable to apply the actual overhead rates of the incumbent contractor because it alleges that its insurance rates and labor fringe costs would be lower than the incumbent's. However, even if we were to accept these allegations as persuasive and were to find that the Navy should have applied the overhead rate of [DELETED] to determine General Offshore's evaluated cost, our review of the normalized costs under this assumption shows that Global's BAFO would still be the best value under the cost/technical tradeoff methodology stated in the RFP.

The protests are denied.

Comptroller General
of the United States